MILLENNIUM

E N E R G Y I N C .

1996 ANNUAL REPORT

CORPORATE PROFILE

Millennium Energy Inc. ("Millennium" or the "Corporation") is a junior oil and gas exploration, production and development company which commenced operations on April 30, 1996. The Corporation was capitalized privately with $250,000 and then completed its $250,000 initial public offering in October of 1995 pursuant to The Alberta Stock Exchange Junior Capital Pool program, by issuing 2,500,000 shares at $0.10 each. The shares began trading on The Alberta Stock Exchange on December 1, 1995 and on April 30, 1996, Millennium completed its major transaction by acquiring an overriding royalty on the production from 7 gas wells located in the Liege area of North-Central Alberta. This is the Corporation's first annual report.

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Annual Meeting

The Annual Meeting of Millennium Energy Inc. will be held at 3:00 p.m. Tuesday, June 3, 1997, at the Metropolitan Center, Calgary, Alberta. Shareholders are encouraged to attend and those unable to do so should complete and return their Form of Proxy.

Abbreviations

Mcf	Thousand cubic feet
Mmcf	Million cubic feet
Bcf	Billion cubic feet
Boe	Barrel of oil equivalent (10 Mcf = 1 Bbl)
Mboe	Thousand barrels of oil equivalent
NGL	Natural gas liquid
Bbl/d	Barrels of oil per day
Mmcf/d	Millions of cubic feet per day
Boe/d	Barrels of oil equivalent per day
GORR	Gross Overriding Royalty

CORPORATE HIGHLIGHTS

The figures set out below are for the 12–month period ended December 31, 1996. However, the Corporation only began receiving revenues as of April 30, 1996, when it completed its first acquisition.

FINANCIAL

(for the 12 month period ended December 31, 1996)

Royalty Revenue	148,208
Per Share	0.02
Cash flow	87,045
Per Share	0.01
Net Income	2,240
Per Unit	0.00
Working capital	(6,300)
Long-term debt	410,000
Shareholders' equity	471,047
Shares outstanding at year-end	7,500,000

OPERATING

	Average 1996	December 1996
Production		
Natural gas (Mcf/d)	403	358
Average prices		
Natural gas ($/Mcf)	1.82	3.78

SHARE TRADING

(Based on daily closing price)

Prices ($)	
High	0.25
Low	0.11
Close	0.24
Volume	
Shares	1,087,500
Value ($)	193,567

MESSAGE TO SHAREHOLDERS

Millennium Energy Inc. ("Millennium" or the "Corporation") is a junior oil and gas exploration, production and development company which commenced operations on April 30, 1996. The Corporation was capitalized privately with $250,000 and then completed its $250,000 initial public offering in October of 1995 pursuant to The Alberta Stock Exchange Junior Capital Pool program, by issuing 2,500,000 shares at $0.10 each. The shares began trading on The Alberta Stock Exchange on December 1, 1995 and on April 30, 1996, Millennium completed its major transaction by acquiring an overriding royalty on the production from 7 gas wells located in the Liege area of North-Central Alberta. This is the Corporation's first annual report.

Although many start-up energy companies opt for "high risk-high reward" projects in their infancy, Millennium adopted a more conservative approach, choosing instead to acquire an asset which generates solid cash flow, while carefully identifying several follow-up transactions which add value. An investment in Millennium should be made with a view to growth over several years.

With several hundred public junior oil and gas companies operating in Canada, what distinguishes Millennium? The answer is management.

The key to a profitable investment for shareholders is the management of the business in which they are investing. Millennium's management team is comprised of professionals who among them have over 120 years of oil and gas experience in engineering, geology, accounting, corporate finance, land, law and investor relations; a level and variety of expertise possessed by few companies Millennium's size.

While such an administrative structure could not be supported by most small companies, Millennium enjoys the benefits of being associated with APF Energy Management Inc. ("APF"), with whom they share a common management team. APF is the manager of APF Energy Trust (the "Trust"), a recently created oil and gas royalty trust whose units trade on The Toronto Stock Exchange. As of April 15, 1997 APF managed assets of $55 million and 3,000 Boe/d of production. Payment of the general and administrative costs incurred by the APF-Millennium group is proportionate to the size of the two entities; accordingly, Millennium receives the benefits of large company resources at a fraction of the cost.

Millennium's growth will be achieved through a combination of initiatives, which will be financed out of cash flow and/or the proceeds of an equity issue, planned for the third quarter of 1997.

First, it will be provided with the opportunity to participate in drilling programs on land managed by APF. Because the Trust was created to acquire a royalty on producing properties, its interest in funding exploration drilling projects is limited. In such circumstances, a farm-out of the drilling is appropriate and Millennium will be invited to take part on standard industry terms.

Secondly, Millennium will be evaluating numerous non-APF drilling projects in which to participate.

Thirdly, Millennium will identify potential production acquisitions, focussing on opportunities to enhance production by tying-in reserves, developing by-passed pay and improving production operations.

On behalf of the Board of Directors
of Millennium Energy Inc.

M. Hislop

Martin Hislop
President and Chief Executive Officer

Steven Cloutier

Steven Cloutier
Vice President, Corporate Development & Secretary

Major Transaction

Millennium was created in 1995 and capitalized with $250,000 by its senior officers, directors, and their families and business associates. An additional $250,000 was raised from the public in October of 1995 pursuant to The Alberta Stock Exchange Junior Capital Pool ("JCP") program, with 2,500,000 shares sold at $0.10 each. Under the JCP rules, Millennium had 18 months to complete a major transaction; in the interim, the shares began trading on The Alberta Stock Exchange on December 1, 1995.

Between October 1995 and April 1996, Millennium identified and evaluated a number of potential projects which might qualify as the major transaction. Ultimately, Millennium's current asset, a two-thirds interest of a gross overriding royalty on the production from 7 producing gas wells and 1 gas well which is currently suspended in the Liege, Alberta area (the "Liege GORR"), was purchased from Harbour Petroleum Company Ltd. on April 30, 1996, indirectly through APF Energy Management Inc., which had acquired the asset one month earlier and re-conveyed it to Millennium at its cost.

An independent engineering evaluation of the Liege GORR completed prior to the transaction valued the asset at $1.03 million, based on the value of future cash flows discounted at rate of 15%. Millennium acquired the Liege GORR for $970,000, utilizing $370,000 cash and a bank loan of $600,000.

Property Description

The Liege area is located 250 miles north of the city of Edmonton.

Gas was first developed in the pool with the drilling of 03-30-091-20 W4M in 1985. Subsequent follow-up wells were drilled which defined the areal extent of the pool. Production in the area is obtained from the Wabiskaw sandstone. The Wabiskaw sandstone overlays a thick Grosmont limestone member which is filled with heavy crude oil. Although the underlying heavy oil is immobile, due to its high viscosity, it may be providing some indirect solution gas which is feeding into the Wabiskaw sandstone above. Gas production in the area is collected and processed through an 850 BHP Booster Compressor at 16-12-91-21 W4M.

The Liege GORR encumbers all petroleum and natural gas production which is being or may be obtained from 7 sections of land. Each of the Wells has been drilled on 640-acre spacing (1 section). Accordingly, the Corp-oration does not anticipate that any additional drilling will occur.

The Liege GORR is subject to a minimum payment of $0.16 per MCF. This equates to a minimum product price of approximately $1.42 per MCF, as the Corporation has determined that deductions permitted by the Crown for plants in the Liège area average $0.35 per MCF (being the only deductions allowable under the Agreement in calculating the GORR). The net product price of $1.07 per MCF, subject to a 15% royalty, would yield a minimum royalty payment of $0.16 per MCF of gross production.

Reserves and Estimated Future Net Cash Flows Before Income Taxes

December 31, 1996

Based on engineering report prepared by Dobson Resource Management Ltd. dated February 12, 1996 and effective January 1, 1996 (the "Dobson Report").

	Royalty Interest Reserves (Mmcf)	Discount Rate (000's) 10%	15%	20%
Proved Producing	1,009	1,206	984	833
Risked Probable	0	0	0	0
Total Proved plus Risked Probable	1,009	1,206	984	833

Reserves Reconciliation

December 31, 1996	Natural Gas (Mmcf)
Opening Reserves	1,190
Less: Production	181
Year End Reserves	1,009

Pricing Assumptions

Based on prices set out in the Dobson Report.

Year	$/MCF
1997	1.61
1998	1.85
1999	2.04
2000	2.23
2001	2.39
2002	2.53
2003	2.69
2004	2.82
2005	2.96
2006	3.08
2007	3.19
2008	3.42
2009	3.54
2010	3.55

escalated at 3% thereafter

Borrowing

In conjunction with acquiring the Liege GORR, Millennium entered into a $600,000 credit facility with National Bank of Canada. As at December 31, 1996, the principal outstanding under that facility amounted to $530,000. The loan bears interest at National Bank of Canada prime rate plus 1.25% and is secured by a General Assignment of Book Debts and a Floating Charge Debenture on all of the assets of the Corporation.

Environmental Matters

Because the Liege GORR does not create an interest in land for Millennium, the Corporation has no obligation for environmental matters. However, future acquisitions may bring with them such obligations. As a matter of corporate policy, Millennium intends to ensure that its operations, environmental and safety programs are maintained at levels well above industry standards.

Insurance

Millennium will carry insurance to provide protection of its interests in its current and future assets at or above industry standards. Insurance policies will cover property damage, general liability and, for certain Properties, business interruption. The ongoing level, type and maintenance of insurance will be determined by Millennium based upon the availability and cost of such insurance and Millennium's perception of the risk of loss.

Production & Revenue

The 1996 exit rate of the Liege GORR was 400 Mcf/d. This resulted in revenue of $148,208 ($0.02/share) for the period ended December 31, 1996, up 15% over the forecast of $129,333.

General & Administrative Expenses

General and administrative expenses amounted to $41,395 for the period ended December 31, 1996. As a result of the relationship with APF, G&A is expected to remain well below industry standards, even as Millennium increases its asset base.

Interest Expense

In order to acquire the Liege GORR on April 30, 1996, Millennium borrowed $600,000 from National Bank of Canada. Pursuant to this loan facility, blended monthly payments of $10,000 began in June 1996. For the period ended December 31, 1996, Millennium made payments totaling $70,000.

Capital and Deferred Taxes

Millennium has approximately $31,000 of tax losses available to shelter future income, which losses begin to expire in 2002, The benefit of these losses are shown as deferred taxes on the Corporation's Balance Sheet.

Depletion, Depreciation and Future Site Restoration Expenses

Millennium's depletion for the year was $83,000. This amount represents the recovery of the cost of its capital assets. The Corporation does not have any site restoration or environmental obligations, as a result of its ownership of a royalty rather than a working interest.

Liquidity and Capital Resources

The most significant transaction for the period was the acquisition of the Liege GORR, which was financed by cash and a bank loan.

Future drilling projects and acquisitions will be funded from cash flow and from the proceeds of an equity issue, tentatively planned for the third quarter of 1997. At this time, it is Millennium's intent to not finance further operations through the issuance of debt.

M Hislop

Martin Hislop
President and Chief Executive Officer

Steven Cloutier

Steven Cloutier
Vice President, Secretary and Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of
Millennium Energy Inc.

We have audited the balance sheets of Millennium Energy Inc. as at December 31, 1996 and 1995 and the statements of operations and retained earnings and changes in financial position for each of the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for each of the periods then ended in accordance with generally accepted accounting principles.

Price Waterhouse

Chartered Accountants
Calgary, Alberta

April 25, 1997

BALANCE SHEET

December 31,1996	1996	1995
Assets		
Current assets		
Cash	**$ 66,481**	$ 11,150
Term deposit	**—**	430,168
Accounts receivable	**61,126**	5,126
Prepaid expenses	**3,360**	—
	130,967	446,444
Capital assets (Note 2)	**864,039**	—
Deferred taxes	**23,308**	25,113
	$1,018,314	$ 471,557
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	**$ 17,267**	$ 2,750
Current portion of long-term debt (Note 3)	**120,000**	—
	137,267	2,750
Long-term debt (Note 3)	**410,000**	—
Shareholders' Equity		
Share capital (Note 4)	**467,098**	467,098
Retained earnings	**3,949**	1,709
	471,047	468,807
	$1,018,314	$ 471,557

Approved by the Board

Director

Steven Cloutier

Director

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

	Year ended December 31 1996	Period ended December 31 1995
Revenues		
Royalty revenue	$ 148,208	$ —
Interest income	7,820	8,121
	156,028	8,121
Expenses		
General and administrative (Note 7)	41,395	5,037
Interest on long-term debt	27,588	—
Depletion	83,000	—
	151,983	5,037
Income before income taxes	4,045	3,084
Income taxes – deferred (Note 6)	(1,805)	1,375
Income for the period	2,240	1,709
Retained earnings, beginning of the period	1,709	—
Retained earnings, end of the period	$ 3,949	$ 1,709
Earnings per share	$ —	$ —

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended December 31 1996	Period ended December 31 1995
Cash provided by (used in) operations		
Income for the period	$ 2,240	$ 1,709
Add items not affecting cash		
Deferred income tax	1,805	1,375
Depletion	83,000	—
	87,045	3,084
Net change in non-cash working capital	(44,843)	(2,376)
	42,202	708
Cash used in investing activities		
Purchase of royalty interest (Note 2)	(947,039)	—
Cash provided by financing activities		
Long-term debt (Note 3)	530,000	—
Issue of common shares for cash net of issue expenses of $59,390	—	440,610
	530,000	440,610
(Decrease) increase in cash and term deposits	(374,837)	441,318
(Decrease) increase in cash and term deposits	441,318	—
(Decrease) increase in cash and term deposits	$ 66,481	$ 441,318

1 Significant accounting policies

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. The more significant of the Company's accounting policies are:

(a) **Incorporation**
The Company was incorporated under the Business Corporations Act of Alberta as 638715 Alberta Ltd. on January 12, 1995 and changed its name to Millennium Energy Inc. on April 25, 1995 and to Millennium Energy Inc. on May 30, 1995. The common shares are listed on the Alberta Stock Exchange and were initially posted for trading on December 1, 1995.

(b) **Petroleum and natural gas properties and equipment and royalty interest**
The Company follows the full cost method of accounting in accordance with the guideline issued by the Canadian Institute of Chartered Accountants whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized in cost centres and charged against earnings as set out below. Such costs include royalty acquisition, land acquisition, geological and geophysical, carrying charges of non-producing properties and costs of drilling both productive and non-productive wells.

Gains or losses are not recognized upon disposition of oil and gas properties or royalty interests unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion in a cost centre of 20% or more.

Depletion is provided on costs accumulated in producing cost centres using the unit of production method. For purposes of the depletion calculation, gross proved oil and gas reserves, as determined by outside consultants, are used and converted to a common unit of measure on the basis of their approximate energy content.

The net carrying costs of the Company's interests in each cost centre is limited to an estimated recoverable amount. This amount is the aggregate of estimated future net revenues from proved reserves and the costs of undeveloped properties, net of impairment allowances. An enterprise ceiling test limits the total net carrying costs, net of deferred income taxes and future site restoration cost provisions, to the aggregate of the estimated future net revenues for all cost centres, less estimated future general and administrative costs, financing costs and income taxes. Future net revenues are calculated using prices in effect at the Company's year end without escalation or discounting.

(c) **Joint venture accounting**
Substantially all of the Corporation's petroleum and natural gas exploration and production activities are conducted jointly with others and the accounts reflect the Corporation's proportionate interest in such activities.

2 Capital assets

	December 31 1996	1995
Petroleum and natural gas assets	$ 947,039	$ —
Accumulated depletion	(83,000)	—
	$ 864,039	$ —

At December 31, 1996, petroleum and natural gas assets include $3,333 in respect of an unproved property which has been excluded from depletion calculations.

3 Long-term debt

	December 31 1996	1995
Bank loan	$ 530,000	$ —
Less: Current portion	120,000	—
	$ 410,000	$ —

Long-term debt consists of a non-revolving demand loan, reviewed annually by the bank in April, bearing interest at prime rate plus 1-1/4% per annum (6% at December 31, 1996) and secured by a general assignment of book debts registered in the Province of Alberta and a registered $1,000,000 floating charge debenture on all assets of the Company. Interest is paid monthly with monthly principal payments of $10,000.

Principal repayments on outstanding debt are:

1997	$	120,000
1998		120,000
1999		120,000
2000		120,000
2001		50,000
	$	530,000

4 Share capital

(a) Authorized
Unlimited number of Class A voting Shares
Unlimited number of Class B, C, D and E preferred shares, issuable in series

The Directors of the Company are authorized to determine the designation, rights, privileges, restrictions and conditions attaching to each Class of the preferred shares.

(b) Issued and outstanding – December 31, 1996 and 1995

	Shares		Amount
Class A voting shares			
Issued for cash on incorporation	5,000,000	$	250,000
Issued for cash pursuant to a prospectus	2,500,000		250,000
Share issue expenses, net of deferred income taxes of $26,488	—		(32,902)
	7,500,000	$	467,098

(c) Options
The Company has established a Directors', Management and Employees' Stock Option Plan. At December 31, 1996 and 1995, there are 220,000 options outstanding at an exercise price of $0.10 per share which expire July 1, 2000.

5 Financial instruments

The Company's financial instruments that are included in the balance sheet are comprised of cash, accounts receivable, and all current liabilities and long-term borrowings.

(a) Fair values of financial assets and liabilities
The fair values of financial instruments that are included in the balance sheet, including long-term borrowings, approximate their carrying amount due to the short-term maturity of those instruments and the floating prime rate applied to long-term borrowings.

(b) Credit risk
A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

(c) Interest rate risk
At December 31, 1996, the increase or decrease in net earnings before income tax for each one percent change in interest rates on floating rate debt amounts to $5,300.

6 Income taxes

The Company has approximately $31,000 of tax losses available to shelter future income which losses begin to expire in 2002. The benefit of these losses has been recorded in these financial statements.

7 Related party transactions

To complete its Major Transaction as a Junior Capital Pool Corporation, the Company acquired from an affiliate, APF Energy Management Inc. ("APF") (formerly Skyridge Resources Inc.), a 2/3 interest in a 15% Gross Overriding Royalty on 7 producing wells in the Liége area. The acquisition price was equal to APF's cost, and was funded with a combination of cash and debt financing.

During 1996, the Company paid APF $29,167 as reimbursement for general and administrative costs on a cost recovery basis. Of this amount, $14,167 is recorded as accounts payable at December 31, 1996.

CORPORATE INFORMATION

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Directors and Officers of Millennium Energy Inc.

Robert Burn, *Director*

Nancy Penner, *Director*

Martin Hislop, *Director*
President & Chief Executive Officer

Steven Cloutier, *Director*
Vice President, Corporate Development & Secretary

Gregory Walsh, *Director*
Vice President, Operations

Raymond Donais, *Director*
Vice President, Exploration

Legal Counsel

Parlee McLaws
Calgary, Alberta

Bankers

National Bank of Canada
Calgary, Alberta

Engineering Consultants

Gilbert Laustsen Jung Associates Ltd.
Calgary, Alberta

Trustee, Registrar & Transfer Agent

The R-M Trust Company
Calgary, Alberta

Auditors

Price Waterhouse
Calgary, Alberta

Stock Exchange Listing

The Alberta Stock Exchange
Symbol: "MLN"

Investor Relations

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